

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

A REVIEW OF THE STATE TEACHERS'
RETIREMENT SYSTEM'S PAYMENT
OF DEATH BENEFIT CLAIMS

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

P-324

A REVIEW OF THE
STATE TEACHERS' RETIREMENT SYSTEM'S
PAYMENT OF DEATH BENEFIT CLAIMS

OCTOBER 1983



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October 6, 1983

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Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the State Teachers' Retirement System's payment of death benefit claims.

Respectfully submitted,

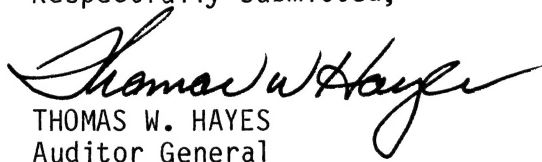

THOMAS W. HAYES
Auditor General

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SUMMARY

Since May 1982, the State Teachers' Retirement System (STRS) has experienced a growing backlog of death benefit claims. Because of delays in processing these claims, the STRS paid beneficiaries over \$15,000 in interest penalties between February 1983 and July 1983. The backlog, which by April 22, 1983, had reached 937 claims, resulted when the STRS reorganized its operations to prepare for automating its processing of all benefits, including death benefit claims. To reduce the backlog, the STRS hired additional staff to process claims and by June 3, 1983, had reduced the backlog of death benefit claims to 306 claims. However, because the new staff were temporarily reassigned to process regular retirement claims of teachers retiring at the end of the school year, the backlog had increased to 642 claims by June 30, 1983. Although the STRS is still experiencing a backlog, the STRS anticipated that the backlog would be reduced after July 8, 1983, when all of the new staff were returned to processing death benefit claims.

We also found other weaknesses in the STRS' processing of death benefit claims. Four of the 19 death benefit claims we examined contained errors, including miscalculation of interest penalties, payment of death benefits before the required documents were submitted, or delays in paying the death benefit. Furthermore, the STRS does not always stamp the date of receipt on incoming documents, a procedure essential for accurately computing interest penalties and for monitoring the efficiency of the benefit payment process. STRS officials stated that these

weaknesses resulted from clerical oversight. Although the STRS' Quality Control Unit reviews cases for major errors, the STRS does not periodically sample case files to determine the accuracy of the benefit payment process.

INTRODUCTION

The State Teachers' Retirement System (STRS), established in 1913, is to provide a financially sound plan for furnishing benefits to public school teachers. The Teachers' Retirement Board and STRS staff manage the system. As of June 30, 1982, the STRS had 306,058 members and another 90,303 persons receiving benefits. In fiscal year 1982-83, the STRS spent approximately \$845.7 million, of which about \$763.4 million was paid in benefits. In fiscal year 1982-83, the STRS received revenue of over \$2.1 billion; this total included a state contribution of about \$212.2 million, contributions of over \$1 billion from STRS members and their employers, and investment income of \$870 million.

The STRS provides retirement benefits based on a member's compensation, age, and length of service. The STRS also provides disability benefits and death benefits. Upon the death of each member, the STRS provides a \$2,000 death benefit to the member's beneficiary or estate. In addition, the surviving beneficiary may receive a monthly allowance or a return of the member's accumulated contributions in a single payment. The amount of the death benefit is determined by several factors including whether the member died during active service or retirement and the retirement option that the member had selected for the beneficiary. In fiscal year 1982-83, the STRS processed approximately 2,800 death benefit claims.

Chapter 1428, Statutes of 1982, requires the STRS to pay death benefits within 45 days after a beneficiary supplies the STRS with the necessary information and documents required to process the death benefit claim. Further, the STRS is required to pay an interest penalty to the beneficiary when the STRS takes longer than 45 days to process the claim. As of July 1, 1983, the interest penalty was 16 percent, the same rate that the STRS charges school districts for late remittances. The STRS must report all its late payments to the Teachers' Retirement Board.

SCOPE AND METHODOLOGY

The objective of this review was to assess the ability of the STRS to pay death benefits within the 45 days required by state law. Our review focused on the status of death benefit payments and the efforts of the STRS to expedite the payment of death benefits.

In conducting the review, we examined a March 1983 STRS audit of the process of handling death benefit claims and duplicated the methodology used in that audit to determine the status of death benefit payments as of June 30, 1983. In addition to computing the daily and weekly flow of death benefit claims through the system, we examined 19 death benefit case files and tracked their progress through the processing system. To determine the amount of interest penalties paid by the STRS, we reviewed the STRS' reports to the Teachers' Retirement Board on interest penalty payments.

To assess the efforts of the STRS to expedite the payment process, we interviewed STRS officials and reviewed the STRS' analyses of staffing needs and anticipated performance levels. Finally, to verify whether the efforts of the STRS to expedite the process have been successful, we compared the number of claims backlogged before and after the STRS hired additional staff to reduce the backlog.

In the first section of this report, we discuss the development of the STRS' backlog of death benefit claims and the corrective action taken by the STRS to eliminate the backlog.* In the second section, we discuss errors that we identified in a sample of death benefit claims.

* In this report the term "backlog" denotes claims not yet fully processed.

ANALYSIS

I

BACKLOG OF DEATH BENEFIT CLAIMS

The State Teachers' Retirement System is currently automating its system for processing all benefit claims. The STRS is implementing the system over a 42-month period and has scheduled the system to be fully operational by fiscal year 1984-85. In May 1982, following recommendations made by a consulting firm, the STRS reorganized its operations to prepare for the automated system. The STRS established new procedures for processing benefit claims and trained its staff in the new system. However, as a result of reorganizing its operations, the STRS developed backlogs in processing claims. By April 22, 1983, the backlog of death benefit claims reached 937 claims.

In response to the backlog of claims, the STRS studied its staffing requirements in January 1983. The study indicated that the STRS needed six additional staff members to eliminate the backlog of death benefit claims. Subsequently, the STRS hired five staff persons and one supervisor to process these claims. The new staff began training on April 11, 1983, and started processing death benefit claims on April 25, 1983.

To complete processing of the 937 claims backlogged on April 23, 1983, would take 312 staff hours. By June 3, 1983, after the

new staff had begun processing claims, the backlog was reduced to 306 claims; processing this number of claims would require 102 staff hours. However, according to the Assistant Chief Executive Officer for Operations, because during June of each year the STRS experiences an increase in the number of teachers retiring from service at the end of the school year, the STRS required the new staff to assist temporarily in processing these retirement claims. On June 13, 1983, the STRS transferred the new staff, who had been processing death benefit claims, into training for processing retirement claims. The STRS did not transfer all of the new staff back to processing death benefit claims until July 8, 1983. As a result, on June 30, 1983, the backlog of death benefit claims had increased to 642, which would require 214 staff hours to process. The Assistant Chief Executive Officer for Operations stated that the recent increase in the backlog was temporary and the backlog would continue to diminish because the new staff had resumed processing death benefit claims.

Because the STRS accumulated a backlog of claims, it has not paid all death benefits within 45 days as required by state law. From February 5, 1983, to July 22, 1983, the STRS paid \$15,372 in interest penalties for delayed processing of 765 death benefit claims.

II

WEAKNESSES IN PROCESSING DEATH BENEFIT CLAIMS

To assess the STRS' processing of death benefit claims, we selected a sample of 19 death benefit claims and tracked them through the processing system. We found that four of these claims contained errors, including an inaccurate calculation of an interest penalty and a death benefit payment made before the beneficiary submitted all the required documentation. We also found processing errors that resulted in delayed payments to beneficiaries. Further, the STRS does not always stamp the date of receipt on incoming documents.

When the STRS receives notification of a member's death, the STRS advises the member's beneficiary of the documents that beneficiary must submit in applying for the death benefit. The STRS' Records and Mail Unit receives the documents, matches the documents to the member's file, and reviews the documents for completeness. Once the STRS assembles the necessary documents, a calculations unit computes the amount of the death benefit. Lastly, the file is reviewed for accuracy, entered into the STRS' computer system, and sent to the State Controller for payment. The STRS begins the processing period when it has received all necessary documents and ends the processing period on the date the STRS submits the claim schedule to the State Controller for payment.

Four of the 19 death benefit case files we reviewed contained errors. In one claim, because the STRS had used an incorrect date for computing the interest penalty, the STRS calculated too few days of interest owed to a beneficiary. Although the STRS had not yet paid the penalty at the time of our review, if the STRS had paid the interest penalty based on the incorrect date, the beneficiary would have been underpaid more than two months of interest.

We also found an instance in which the STRS paid the death benefit before the beneficiary submitted all the required documentation. The STRS did not ensure that the beneficiary was eligible to receive the death benefit.

Additionally, incorrect information in one claim caused the STRS' computer to reject the claim for payment. Because the STRS did not correct and resubmit the claim promptly, the payment was delayed for about one week. In another instance, the STRS continued to send regular retirement payments to a member after the beneficiary notified the STRS of the member's death. The STRS' computer would not process the death benefit payment while it continued the regular retirement payments. As a result, the death benefit payment was delayed for more than a month.

Lastly, we observed that several case files contained documents that were required from the beneficiary but that were not stamped with the date of receipt. The STRS computes interest penalties based on the date that the STRS receives the last required document. Unless the STRS

routinely stamps the date of receipt on all incoming documents, it cannot ensure that interest penalties are calculated correctly. Also, when documents are not stamped with the date of receipt, STRS management cannot effectively monitor the timeliness of death benefit payments.

On July 27, 1983, we discussed these weaknesses with the Assistant Chief Executive Officer for Operations and his staff. These officials stated that the errors resulted from clerical oversights made at various stages of the payment process. To minimize such errors, these officials stated that STRS supervisors should more closely monitor the work of the clerical staff. We also asked whether the STRS routinely samples case files to identify possible weaknesses in the claims processing system. STRS officials indicated that, although the STRS does not routinely complete such reviews, its Quality Control Unit does review cases. However, the officials said that, while this unit should identify major errors, it does not completely review each case.

CONCLUSION

From May 1982 to April 1983, the State Teachers' Retirement System accumulated a growing backlog of death benefit claims that reached a peak of 937 claims. On April 25, 1983, additional staff began processing death benefit claims, and by June 3, 1983, the staff reduced the backlog by about two-thirds. In mid-June 1983, the STRS temporarily reassigned the new staff to assist in the processing of retirement claims, and the backlog increased to 642 claims as of June 30, 1983.

As a result of delays in processing death benefit claims, the STRS paid over \$15,000 in interest penalties from February 15, 1983, to July 22, 1983. Additionally, 4 of the 19 death benefit claims we examined contained errors, and the STRS does not always stamp the date of receipt on incoming documents. STRS officials stated that these errors resulted from oversights by clerical staff and that the work of these staff should be more closely monitored.

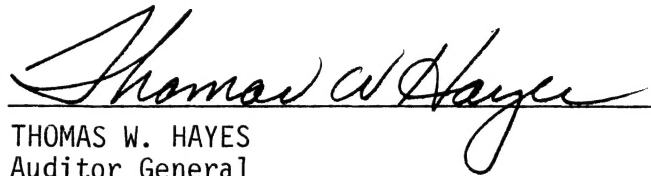
RECOMMENDATIONS

To determine whether the corrective action taken by the State Teachers' Retirement System will effectively decrease the backlog of death benefit claims, the STRS should report to the Office of the Auditor General on the status of the backlog of death benefit claims 60 days, 6 months, and one year from the date of this report.

To ensure that death benefit claims are processed accurately, STRS supervisors should closely monitor the work of the clerical staff. Also, STRS management should periodically sample case files and completely review each file for indications of weaknesses in the system for processing death benefit claims.

We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Date: September 26, 1983

Staff: Thomas A. Britting, Audit Manager
Janet McDaniel



State and Consumer Services Agency

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September 19, 1983

Thomas W. Hayes
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Re: State Teachers' Retirement System Death Benefits

Dear Mr. Hayes:

We have reviewed the draft of the State Teachers' Retirement System's payment of death benefit claims.

As your review has determined, the Retirement System, in concurrence with the Agency, recognized the need for additional resources in this area and took the necessary steps to relieve the growing backlog. We are in concurrence with your recommendations and look forward to reporting our progress with respect to the death benefit program. We share with you the concerns regarding internal quality control and we will be working very closely with STRS to improve the level of supervision.

Sincerely,

A handwritten signature in cursive script, appearing to read "Shirley R. Chilton".

SHIRLEY R. CHILTON
Secretary of the Agency

SRC:jk

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps